

Message Text

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ACTION SS-15

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 STR-08 OMB-01 CEA-02 L-03 SCEM-02

INT-08 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DODE-00 PA-03 USIA-15 PRS-01

DRC-01 /156 W

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R 211012Z SEP 73

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 8873

INFO AMCONSUL MEDAN

AMEMBASSY TOKYO

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CORRECTED COPY (PARA 1)

DEPT PASS EXIM

E.O. 11652: GDS

TAGS: ENRG, EFIN, ID, JA

SUBJ: INDONESIAN/JAPANESE LNG DISCUSSIONS

REFS: A) STATE 187195 (NOTAL); B) STATE 187536; C) TOKYO 12206

SUMMARY: TRADE MINISTER RADIUS PRAWIRO, GOI'S PRINCIPAL NEGOTIATOR WITH JAPANESE GOVERNMENT ON LNG MATTERS ON SEPTEMBER 18 PROVIDED AMBASSADOR WITH HIS VIEWS ON STATUS LNG NEGOTIATIONS. RADIUS STATED THAT NO RPT NO GOI COMMITMENT YET GIVEN TO JAPANESE FOR SPECIFIC QUANTITIES LNG AND THAT FIGURES USED IN DISCUSSIONS ONLY ILLUSTRATIVE. HE APPEARS EAGER TO RECEIVE OFFICIAL STATEMENT OF USG INTEREST IN MARKETING OF INDONESIAN LNG IN U.S. (SEE REF. A). IMPLICITLY HE WOULD EXPECT SUCH INTEREST TO BE EXPRESSED
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IN GOVERNMENT-TO-GOVERNMENT CREDIT ON SOFT TERMS ARRANGED

AS QUID PRO QUO FOR LNG IN PATTERN SET BY UNDERSTANDING WITH JAPANESE GOVERNMENT. HE CONSIDERS JAPANESE EXIM CREDIT TERMS BETTER THAN THOSE AVAILABLE FROM U.S. EXIM. AMBASSADOR RESPONDED THAT EXIM'S TERMS ARE COMPETITIVE AND ITS PRELIMINARY CREDIT OFFER ON LNG PROJECT ILLUSTRATES OFFICIAL USG INTEREST. HE EMPHASIZED TO RADIUS IMPORTANCE OF DIVERSIFICATION ITS MARKETING OF LNG AND OF COOPERATIVE APPROACH IN LNG MATTERS BY INDONESIA, U.S. AND JAPAN. END SUMMARY.

1. ON SEPTEMBER 18 IMMEDIATELY FOLLOWING GOI TRADE MINISTER RADIUS PRAWIRO'S RETURN FROM GATT DISCUSSIONS IN TOKYO, AMBASSADOR AND ECON COUNSELOR MET WITH RADIUS TO REVIEW LNG DEVELOPMENTS. AMBASSADOR SOUGHT CLARIFICATION OF STATUS AND SIGNIFICANCE OF GOI MEMORANDUM OF UNDERSTANDING WITH GOR/RADIUS HAD SIGNED WITH VICE MINISTER OF MITI. RADIUS ACKNOWLEDGED HIS ROLE AS CHIEF GOI NEGOTIATOR ON LNG. WHILE STATING THAT THIS MEMORANDUM SERVES AS BASE FOR FURTHER GOVERNMENT-TO-GOVERNMENT DISCUSSIONS, HE IMPLIED THAT GOI UNDERSTANDINGS WITH GOJ WERE BROADER THAN MEMO, DETAILS OF MEMO WERE NOT "THAT IMPORTANT". GOJ NEEDS LNG AND IS WILLING TO PROVIDE FINANCING, SUBSTANTIAL PART OF IT ON SOFT TERMS. FORMAL NEGOTIATIONS HAVE NOT YET BEGUN. AS NEXT STEP, JAPANESE TEAM ARRIVES IN INDONESIA SEPTEMBER 25 (WE UNDERSTAND THIS WILL BE MIXED GOJ/INDUSTRY TEAM PRIMARILY CONCERNED WITH TECHNICAL ASPECTS LNG PROJECTS).

2. RADIUS REFERRED TO AMBASSADOR INGERSOLL'S DINNER LAST WEEK WHICH HE ATTENDED WITH PETER FLANIGAN, SECRETARY SCHULTZ AND UNDER SECRETARY CASEY. (SEE REF. A). IN RESPONSE TO FLANIGAN'S AND CASEY'S QUESTIONS WHETHER INDONESIA WOULD SUPPLY LNG TO THE U.S., RADIUS SAID HE EXPLAINED THAT IT UNCLEAR TO HIM AND GOI THAT USG HAS OFFICIAL INTEREST IN INDONESIAN MARKETING OF LNG. IN RESPONSE, THE AMBASSADOR EXPLAINED OUR ROLE IS TO FOLLOW PACIFIC LIGHTING AGREEMENT DEVELOPMENTS TO INSURE THAT COMPANY HAS FAIR CHANCE TO OBTAIN LNG AND TO ASSIST WHERE POSSIBLE. UNLIKE DISCUSSIONS WITH CONFIDENTIAL

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JAPANESE ON GOVERNMENT-TO-GOVERNMENT BASIS, IN U.S. CASE PRIVATE COMPANIES TAKE LEADING ROLE IN CONTRACTING FOR LNG; EXIM THEN OFFERS USG SUPPORT CREDIT TO FINANCE EQUIPMENT FOR THE PROJECT. RADIUS SAID U.S. UNABLE TO MATCH FINANCING TERMS OFFERED BY JAPAN EXIMBANK WHICH SUPPLIES 70-80 PERCENT OF CREDIT AT ATTRACTIVE RATE. HE POINTEDLY EMPHASIZED THAT SWITZERLAND NOW OFFERING INDONESIA 50-YEAR CREDIT AT 1 PERCENT INTEREST. THIS HE SAID

IS WAY TO HELP DEVELOPING COUNTRIES. AMBASSADOR REPLIED
THAT EXIMBANK PRESIDENT HENRY KEARNS HAD ASSURED HIM THAT EXIM
CREDIT IS AS FAVORABLE AS ANY AVAILABLE WHEN
ALL FACTORS CONSIDERED.

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3. RADIUS SAID THAT GOVERNMENT-TO-GOVERNMENT AGREEMENT
ON FINANCIAL ASSISTANCE IS FIRST STEP IN CASE JAPAN;
THEN H RTAMINA AND DESIGNATED JAPANESE COMPANIES WILL
NEGOTIATE AMOUNTS AND TERMS OF SALES CONTRACTS, THESE
IN TURN TO BE APPROVED BY THE TWO GOVERNMENTS. AMBASSADOR
NOTED OUR INFORMATION THAT GOI HAD AGREED THAT SOME 8
MILLION TONS PER YEAR LNG BE COMMITTED TO JAPAN AND
SOME 4 MILLION TONS TO PACIFIC LIGHTING (P.L.) AND
WONDERED WHO WOULD GET GAS IF SUPPLY INADEQUATE. RADIUS
SAID INDONESIA HAD MADE NO RPT NO COMMITMENTS ON AMOUNT
OF GAS TO BE SUPPLIED TO JAPAN. ANY FIGURES USED
IN DISCUSSIONS HE SAID WERE MERELY ILLUSTRATIVE ESTIMATES
AND NOT OFFICIAL COMMITMENTS. HE NOTED THAT LEVEL OF
PROVEN RESERVES WILL CONTINUE TO CHANGE AS

EXPLORATION PROGRESSES. AT SAME TIME HE SAID HIS KNOWLEDGE OF P.L. AGREEMENT SO FAR IS LIMITED TO WHAT HE HAS READ IN NEWSPAPERS. HE EXPECTS TO SEE PERTAMINA DIRECTOR IBNU AFTER LATTER RETURNS THIS WEEK TO LEARN
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DETAILS. HE EMPHASIZED THAT QUESTION OF LNG PROJECT FINANCING AND GOVERNMENT APPROVAL OF INVESTMENT PROGRAMS WILL DETERMINE SUPPLY COMMITMENTS. LATTER NOT VERY MEANINGFUL UNTIL COMMITMENT EXISTS FOR MACHINERY TO PRODUCE AND DEVELOP THE LNG. HE POINTEDLY NOTED USG CONCERN OVER PERTAMINA BORROWING AND DEBT PROFILE AT LAST IGGI MEETING, A CONCERN WHICH HE APPROVES.

4. AMBASSADOR ASKED IF DIFFERENCE BETWEEN PRICE OFFERED BY U.S. AND BY JAPAN FOR LNG WOULD BE KEY FACTOR CL GOI EVALUATION OF P.L. AGREEMENT. RADIUS STATED HIS IGNORANCE OF TERMS OF P.L. AGREEMENT BUT SAID THIS COULD BECOME A PROBLEM, SINCE JAPANESE PUBLIC WOULD WATCH PRICE CLOSELY AS TAXPAYERS' MONEY WOULD BE USED TO FINANCE PROJECT. RADIUS CONFIRMED INDONESIA'S INTEREST IN SELLING LNG TO BOTH MARKETS. AMBASSADOR EXPRESSED DESIRE TO KEEP IN CLOSE TOUCH WITH RADIUS AND DISCUSS THIS SUBJECT AGAIN AFTER HE CONSIDERS PROVISIONS OF P.L. AGREEMENT. RADIUS AGREEABLE DISCUSS MATTER INFORMALLY BUT REITERATED THAT HE HAD NO OFFICIAL INDICATION OF U.S. INTEREST IN ASSURING LNG SUPPLY TO U.S. MARKET. HE LAUGHINGLY DESCRIBED FLANIGAN/CASEY APPROACH IN TOKYO AS "LOBBYING", NOT OFFICIAL EXPRESSION AND SAID HE WOULD NEED OFFICIAL NOTIFICATION FROM USG FOR THIS MATTER TO BE DISCUSSED ON GOVERNMENT-TO-GOVERNMENT BASIS WITH U.S. (RADIUS STRONGLY IMPLIED THAT WILLINGNESS OF U.S. GOVERNMENT TO OFFER CREDIT ASSISTANCE WOULD BE IMPORTANT FACTOR IN EXPRESSION OF OFFICIAL INTEREST.) AMBASSADOR SAID HE WOULD REPORT THIS POINT TO HIS GOVERNMENT, NOTING HOWEVER THAT EXIMBANK PRELIMINARY COMMITMENT TO FINANCE LNG PROJECT CONSTITUTES EXPRESSION OF "OFFICIAL" USG INTEREST.

5. AMBASSADOR SUGGESTED ON PURELY PERSONAL BASIS THAT BRIEFING BY TOP P.L. OFFICIAL FOR RADIUS IN TOKYO WHEN HE RETURNS THERE MIGHT BE HELPFUL IN EXPLAINING P.L.'S INTEREST AND PROPOSAL. RADIUS REJECTED THIS IDEA SAYING HE AUTHORIZED TO DEAL SOLELY ON GOVERNMENT-TO-GOVERNMENT BASIS IN JAPAN AND FELT CONTACT WITH PRIVATE AMERICAN INTERESTS MIGHT THEREFORE BE MISUNDERSTOOD BY PRIVATE JAPANESE COMPANIES.
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6. RADIUS TEN POINTEDLY UNDERScoreD THAT HIS POSITION IN NEGOTIATING WITH THE JAPANESE WOULD BE STRENGTHENED IF HE COULD SAY THE USG HAD EXPRESSED INTEREST OFFICIALLY IN OBTAINING LNG SUPPLIES FROM INDONESIA. REPEATING THAT HE COULD NOT HAVE FORMAL CONTACT WITH US UNTIL INFORMED OFFICIALLY OF USG INTEREST, HE SAID THAT UNDER SECRETARY CASEY HAD NOTED THIS POINT AND WONDERED WHETHER WE HAD HEARD FROM CASEY ON THIS MATTER. AMBASSADOR ACKNOWLEDGED RECEIVING BRIEF REPORT FROM TOKYO ON RADIUS TALK WITH CASEY.

7. AMBASSADOR EMPHASIZED RISKS OF INDONESIA'S DEPENDING ON SINGLE MARKET FOR 20 YEAR PERIOD AND CONCLUDED THAT IT WOULD BE IN BEST INTEREST OF ALL THREE COUNTRIES IF AGREEMENT ON LNG SUPPLY COULD BE ACHIEVED IN ORDERLY, EQUITABLE WAY, TO AVOID SELF-DEFEATING COMPETITION. HE ALSO EMPHASIZED COMMON INTEREST OF THE THREE COUNTRIES IN MAINTAINING COOPERATIVE RELATIONSHIPS. RADIUS APPEARED TO AGREE.

8. RADIUS CLEARLY CONVEYED HIS BELIEF THAT P.L. AGREEMENT IS AD REFERENDUM TO GOI, AS ARE ALSO THE CREDIT ARRANGEMENTS, PRICE AND OTHER CONDITIONS OF PRODUCTION AND SALE. RADIUS ALSO MADE CLEAR THAT GOVERNMENT APPROVAL REQUIRED GOES BEYOND THAT OF PERTAMINA BOARD OF COMMISSIONERS (MINISTERS OF NATIONAL PLANNING, FINANCE AND MINING), IMPLYING THAT APPROVAL OF PRESIDENT SUHARTO AND POSSIBLY OTHER MINISTERS IN ECONOMIC AND FINANCIAL SECTOR WOULD ALSO BE REQUIRED.

9. COMMENT: RADIUS' DESIRE FOR OFFICIAL USG EXPRESSION OF INTEREST IN LNG FOR U.S. MARKET WAS VERY CLEAR. RELATIONSHIP OF SUCH INTEREST TO GOVERNMENT-TO-GOVERNMENT CREDIT FROM U.S. SIMILAR THAT ARRANGED WITH JAPAN LAST YEAR FOR OIL DEVELOPMENT, AND POSSIBLY ALSO IN CONNECTION WITH GOJ UNDERSTANDING ON LNG, WAS ALSO STRONGLY IMPLIED. IMPORTANT TO NOTE THAT RADIUS' ROLE AND MANDATE UP TO PRESENT IN LNG FIELD HAS BEEN LIMITED TO DISCUSSIONS WITH JAPANESE GOVERNMENT. HIS CONFIDENTIAL

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VIEWS ON P.L. CONTRACT SHOULD THEREFORE BE TAKEN WITH SOME RESERVATIONS. AMBASSADOR HOPES ARRANGE EARLY APPOINTMENT WITH MINISTER OF MINING SADLI AND WILL COMMENT FURTHER AFTER LEARNING SADLI'S VIEWS.

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